



2002-2003
Annual Report



Characteristics of The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited:

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast further profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Information

Executive Directors

TSOI Siu Ching, Leo
PUN Wai

Independent Non-executive Directors

LIU Kwong Sang
CHAN Chi Tong

Company Secretary

PUN Wai, *AHKSA*

Qualified Accountants

PUN Wai, *AHKSA*

Compliance Officer

PUN Wai, *AHKSA*

Principal Bankers

Hang Seng Bank Limited
Bank of China (Hong Kong)
Citibank, N. A.

Auditors

Graham H.Y. Chan & Co.
Certified Public Accountants

Audit Committee

LIU Kwong Sang
(Chairman of the Audit Committee)
CHAN Chi Tong
PUN Wai

Authorised Representatives

TSOI Siu Ching, Leo
PUN Wai

Share registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Cayman Islands

Head Office and Principal Place of Business

Unit 2217-2225
Level 22, Metroplaza
Tower 1, No. 223
Hing Fong Road
Kwai Fong
New Territories
Hong Kong

Financial Highlights

	Year ended 31 March		Change %
	2003 HK\$'000	2002 HK\$'000	
Revenue			
Turnover	57,471	28,704	100
Profitability			
Gross Profit	19,788	18,023	10
Loss before taxation	(29,346)	(5,896)	398
Loss attributable to shareholders	(28,571)	(4,925)	480
Net worth			
Shareholders' fund	67,708	96,289	(30)
Per share			
Loss per share	(4.96) cents	(0.99) cents	401
Net assets per share	11.75 cents	19.28 cents	(39)
Turnover period			
Inventory turnover period	51 days	54 days	(6)
Trade receivable turnover period	261 days	91 days	(187)

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am very pleased to present the annual report of Satellite Devices Corporation (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2003.

Financial Results

For the financial year ended 31 March 2003, the Group recorded a sales turnover of approximately HK\$57.5 million and a net loss attributable to shareholders of approximately HK\$28.6 million. The gross profit margin for the year was 34% and the loss per share was HK\$4.96 cents per share.

Dividends

The Board does not recommend the payment of any final dividend for the year ended 31 March 2003 (2002:HK\$Nil).

Closure of the Register of the Members

The Register of the Members of the Company will be closed on 18 July 2003, no share transfers will be registered on that day.

Business Review

While, during the year, the Group was challenged by rigorous competition and unfavorable business environment, we still experienced a strong growth in turnover that was nearly doubled, reaching approximately HK\$57.5 million or a year-on-year growth of 100%. The impressive growth in turnover indicates the Group's successful implementation of its strategic plans according to its roadmap. This also demonstrates the increasing popularity of utilizing location-based technology and widening acceptance of our Group's products and services.

However, during the last quarter of our fiscal year, both local and world economies took a major hit led by US-Iraqi War and SARS (Severe Acute Respiratory Syndrome). The effect was negative to the already depressing economy of Hong Kong and the Group's performance. As some customers have either slowed down in the pace of repayment of receivables or requested longer credit periods of transactions, we have made a doubtful debt provision of HK\$12.2 million for prudence sake.

In addition, due to the rapidly changing technology and fall in general component prices during the year, the Group has decided to take a conservative action by writing off or making provision of HK\$6.0 million of our existing inventories as at 31 March 2003.

I believe this conservative financial representation is in line with the best practice of the Group.

Due to the aforesaid reasons, the Group made a net loss of HK\$28.6 million during the year comparing with HK\$4.9 million of last year.

Nevertheless, despite the weak economies, the Group continues to strive for profitability and positive cash flows. Through a series of internal process re-engineering, the Group has implemented various effective measures to tighten its cost control while maintaining our flexibility and productivity to face any unexpected challenges.

Chairman's Statement

In terms of product and business development, during the year, we have introduced a series of innovative products. One of these products is RoadPilot, a PDA-enabled auto-navigation system with complete Hong Kong road mapping. We have also partnered with one of the world's largest technology companies to market RoadPilot that has received warm and exciting responses from the local market. Furthermore, Joint Laboratory for GeoInformation Science, which is a major GIS (Geographical Information System) research institute established jointly by two leading research institutions - Chinese Academy of Sciences and The Chinese University of Hong Kong, has become the Group's strategic partner. Through the strategic partnership, the Group has received the latest Infrared aerial photo images of Hong Kong and the 3-dimensional GeoVisualisation technology. These technologies will be incorporated into our future product lines such as 3-dimensional positioning system and location-based devices.

While we are uncertain of the exact economic effect that SARS will cause and the duration that this impact will last, I am nevertheless very confident about the market trend and the future prospects of location-based technology and its derived products and services.

Financial Resources And Liquidity

As at 31 March 2003, the Group has total assets of HK\$99.0 million, which was mainly financed by current liabilities of approximately HK\$31.3 million and shareholders' funds amounting to approximately HK\$67.7 million. The ratio of total liabilities over the shareholders' funds is at 0.46 as at 31 March 2003.

Current assets amounted to HK\$57.2 million which mainly comprised of HK\$41.0 million accounts receivable and HK\$289,000 cash and bank balance. The working capital ratio is 1.83 as at 31 March 2003.

Total additions of fixed assets of the Group amounted to approximately HK\$3.8 million during the year. On 10 March 2003, the Group acquired the 3-dimensional GeoVisualisation technology from The Chinese University of Hong Kong. The transaction was amounted to HK\$2.3 million and mainly financed by the issuance of 14,916,000 ordinary shares of the Company on 17 April 2003. The other capital expenditures were mainly funded by the internally generated cash and the proceeds raised during the listing of the Company's shares on GEM.

The Group had no banking facilities available or any bank loans outstanding as at 31 March 2003.

The Directors believe that the Group has a strong financial position. The Group is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, the Directors believe the Group is in a good position to obtain financing on favourable terms.

Foreign Exchange Exposure

The revenues of the Group are denominated mostly in Hong Kong Dollars and U.S. Dollars. The Group has minimal exposure to foreign exchange fluctuations and seldom needs to make use of financial instruments for hedging purposes.

Chairman's Statement

Charges on Group Assets and Contingent Liabilities

As at 31 March 2003, there was no charge made on the Group's assets and any material contingent liability outstanding.

Employees

As at 31 March 2003, the Group had a total of 52 employees as comparing to 31 by the end of last year, who are engaged in the following operations:

Engineering and R&D	43
Sales and marketing (including field application engineers)	3
Finance, accounting, operation and administration	6
Total headcount	<u>52</u>

The rise in total staff is mainly due to our establishment of PRC office in Shenzhen. Employees in both Hong Kong and Mainland China are remunerated according to their performance and work experience. In addition to basic salaries, staff benefits include medical scheme, share options and performance bonus.

Significant Investments/Material Acquisitions and Disposals of Subsidiaries

During the year, the Group had no significant investments and no material acquisitions or disposals of subsidiaries.

Future Prospects

Despite the slow and gradual improvement of the economic conditions in Hong Kong, certain of our major customers locating in the places such as Mainland China, South East Asia are still under the influence of the epidemic of SARS. At this stage, it is difficult to estimate the damages, which SARS is causing, and the period of economic impact that it will last. However, the location-based technology, products and services continue to receive great attention by world leading technology companies.

The recent introduction of Tablet PC and Intel's Centrino, mobile CPU (Central Processing Unit) with built-in wireless LAN (Local Area Network) connection and PXA800F (Xscale CPU with built-in GSM/GPRS) CPU further confirms that major technology companies are emphasizing more and more on wireless and mobile technologies. And, one of the major applications that will be implemented in these products will be location-based related applications. Through the use of GIS and wireless technology, location-based application is increasingly becoming an important function as it can bring the benefits of improved efficiency, productivity and relationship management process on both personal and business fronts.

The Group's objective is to be the leader in the location-based technology. Despite the recent setbacks in the uncontrollable market conditions, I believe that the overall technology market is moving towards that direction and the Group is on the right path to reach this objective.

Acknowledgement

I would like to extend my thanks to my fellow directors and staff for their support, effort and contributions to the success of the Group and to our shareholders for their support during these tough times.

Tsoi Siu Ching, Leo

Chairman

Hong Kong, 26 June 2003

Business Objectives Review

An analysis comparing of business objectives as stated in the Prospectus dated 12 March 2002 with the Group's actual business progress up to 31 March 2003 is set out below :

Business Objectives:

Sales proceeds

- begin generating sales from both Hong Kong and The People's Republic of China excluding Hong Kong (the "PRC") customers, and diversify sales source to include hardware and software as well as service income

Product launches

- launch location-based advertising systems for public transportation companies in Hong Kong and the PRC
- launch auto-navigation systems for customers vehicle markets in Hong Kong and the PRC

Sales and marketing

- initiate promotional campaigns and programs for the Group's location-based technology products and applications and expand sales and promotional efforts with the Group's existing business partners in Hong Kong and the PRC

Actual Business Progress:

- GPS devices and applications with location-based technology continue to contribute to the Group's turnover for the year. The Group expects to have sales from PRC in the coming year

- due to the economic downturn of the last year, the Group delayed the launch of the location-based advertising systems and expected the product will be launched in coming year.

- the Group has successfully launched the auto-navigation systems with the GIS of full Hong Kong mapping, RoadPilot in December 2002. Further versions with maps of major China cities are under development and will be launched in coming year. The product contributed approximately 5% of the total revenue of the Group during the year. It is expected that contribution from these will increase in the coming year when more sales and marketing efforts are put into them

- a number of promotional campaigns and programs has been organized during the year. The Group has also participated in various shows in Hong Kong and the PRC. It is expected to increase the promotional efforts in the coming year, and may extend the efforts geographically to northern China

Business Objectives Review

Business Objectives:

- explore opportunities for the provision of location-based advertising systems on handheld communication devices and with bus operators in Hong Kong
- initiate sales effort and conclude additional sales for GIS/digital maps

Business developments

- commence feasibility study of establishing a research base in Shanghai or Shenzhen, the PRC
- initiate business opportunities and identify business partners in other countries, particularly in the US, Europe and Southeast Asia
- initiate major technical development projects with academic institutions in Hong Kong and in the PRC
- initiate discussions with Internet services providers and content providers in Hong Kong and the PRC for provision of location-based technology services via the Internet

Actual Business Progress:

- the Group is currently studying the potential and opportunities of location-based advertising systems on handheld communication devices in Hong Kong
- the Group has commenced the sales and marketing efforts for GIS/digital maps in the PRC and more resources will be put into this area in the coming year
- the Group has established a research and development center in Shenzhen, the PRC in August 2002. The Group is also making a plan of setting up another office in Shanghai, the PRC depends on the market response of the products in the PRC in coming year
- the Group has identified a number of business partners from various countries and regions like Malaysia, Macau and the US and has commenced negotiation with them for business opportunities in various areas
- the Group has finalized a co-operation project with an university in Hong Kong, and is exploring academic institutions in the PRC and Hong Kong for potential development projects
- the Group has identified and commenced negotiation with a number of Internet services providers and content providers for provision of location-based technology services via the Internet

Business Objectives Review

Business Objectives:

Research & development

- finalise development of auto-navigation systems & PDA solutions, and GPRS powered and Internet-enabled portable personal tracking system
- continue development of GIS for major cities in the PRC and Southeast Asia
- commence development of :
 - portable personal tracking devices and integration with 2.5G/3G wireless communication network and voice recognition
 - integration of location-based technology products and services with multimedia features and other information contents
 - public transportation information platform as a part of the intelligent transportation system
 - 3-dimensional GIS

Actual Business Progress:

- the development of auto-navigation systems & PDA solutions has been finalized and is launched into the market under the brand-name of "RoadPilot" during the year. For the GPRS powered and Internet-enabled portable personal tracking system, the development is progressing and generally in line with the schedule
- the Group is continuing the development of GIS for major cities in the PRC. It is expected that GIS for the major cities in the central and northern part of the PRC will be completed later of the coming year.
- the Group has commenced development of portable personal tracking devices and integration with 2.5G/3G wireless communication network and voice recognition, and public transportation information platform as a part of the intelligent transportation system. The development is progressing and under testing
- the Group is studying the potential of integration of location-based technology products and services with multimedia features and other information contents
- the three-dimensional GIS is under development. In March 2003, the Group acquired the 3-dimensional GeoVisualisation technology from the Chinese University of Hong Kong which marked a milestone in the 3D GIS development of the Group. More results are expected to be obtained later this year

Business Objectives Review

Business Objectives:

Human resources, operations and administration

- recruit additional development engineers and dedicated sales staff to cover Hong Kong and the PRC
- implement and obtain ISO 9002 certification

Actual Business Progress:

- additional engineers and sales staff have been recruited to cope with the expansion of the Group during the year. As at 31 March 2003, the total headcount of the Group had reached 52, both in HK and PRC, and there were 43 engineers within the Group
- the Group has successfully implemented and obtained ISO 9002 quality certification during the year

Business Objectives Review

Use of Proceeds

The Group raised net proceeds of approximately HK\$22 million upon listing of the Company's shares on GEM of the Stock Exchange on 26 March 2002. By 31 March 2003, the Group had used part of the proceeds from the listing to achieve the business objectives as stated above and substantially in the manner as set out in the prospectus dated 12 March 2002. The proceeds have been applied as follows:

	According to the use of proceeds as stated in the prospectus dated 12 March 2002 HK\$'million	Amount utilized up to 31 March 2003 HK\$'million
For development of next generation location-based technology solutions with 3G-enabled multimedia features and interactivity	4.5	4.4
For development of portable personal tracking devices with wireless Internet and voice recognition features	4.5	4.3
For development of intelligent transportation system	4.5	4.1
For development of 3-dimensional GIS	1.5	1.4
For upgrading of the existing R&D facilities and engineering equipment	4.5	2.7
For establishment of research base and office in the PRC	2.0	1.6
To enhance sales and marketing efforts covering Greater China and overseas markets	1.5	1.5
Total	<u>23.0</u>	<u>20.0</u>

Profiles of Directors and Senior Management

Executive Directors

Mr. TSOI Siu Ching, Leo, aged 42, is the Chairman of the Board and the Chief Executive Officer of the Group. He is primarily responsible for the overall strategic planning and directions of the Group. Mr. Tsoi graduated from the Hong Kong Polytechnic University in 1982. He is a member of the Institute of Electrical and Electronics Engineers and a founding member of Intelligent Transportation Systems - Hong Kong. He has over 20 years of experience in the semi-conductor industry. He joined the Group in 1992.

Mr. PUN Wai, aged 31, is an executive director and the Chief Financial Officer of the Group. He is primarily responsible for the financial management and accounting of the Group. Mr. Pun graduated from the Baptist University in Hong Kong with a bachelor degree of business administration in 1994. He is a member of the Hong Kong Society of Accountants and a member of the Association of Chartered Certified Accountants. He has over 8 years of experience in auditing, accounting and financial management. He joined the Group in 2001.

Independent Non-Executive Directors

Mr. LIU Kwong Sang, aged 41, is an independent non-executive director and a member of the Audit Committee of the Group. Mr. Liu is a practicing accountant in Hong Kong and is a director of K.S. Liu & Company C.P.A. Ltd. in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Society of Accountants, a fellow member of the Institute of Financial Accountants and a fellow member of the National Institute of Accountants. He has over 12 years of experience in auditing and accounting. He joined the Group in 2001.

Mr. CHAN Chi Tong, aged 43, is an independent non-executive director and a member of the Audit Committee of the Group. Mr. Chan is the founder and the President of CITI-DIC IT Company Limited, a proprietary software solution provider. He is a Chartered Engineer in Hong Kong, a member of the Institute of Electrical Engineer and a fellow member of the Institution of Electrical Engineer. He has over 17 years of experience in engineering. He joined the Group in 2001.

Senior Management

Mr. WONG Chi Hong, aged 28, is the Chief Technology Officer of the Group. He is primarily responsible for directing and supervising the Group's technology deployment and R&D. Mr. Wong graduated from the City University of Hong Kong in 1998 with a bachelor degree in electronic engineering and is a founding member of Intelligent of Transportation - Hong Kong. He has over 4 years of experience in IT industry. He joined the Group in 1998.

Mr. LOO Wing Keung, aged 27, is an Engineering Manager. He is primarily responsible for supervising the software development on GIS. Mr. Loo graduated with a Diploma in Aircraft Maintenance Engineering from the British Columbia Institute of Technology, Canada in 1998. He has over 5 years of experience in engineering. He joined the Group in 2000.

Mr. TSUI Chi Kit, aged 37, is an Engineering Manager. He is primarily responsible for the overall execution and monitoring of the specific projects in the aspects of software and hardware respectively. He has over 11 years of experience in radio communications projects installation, design, implementation and maintenance. He joined the Group in 2000.

Mr. LEE Ka Yui, aged 38, is a Marketing Manager. He is primarily responsible for overseeing the Group's sales and marketing activities. Mr. Lee has over 14 years of experience in sales and marketing. He joined the Group in 2001.

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 March 2003.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The principal activities of the Group are design, development and sales of location-based technology devices and applications. All of the Group's turnover was derived in Hong Kong.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 20.

The directors do not recommend the payment of any final dividend for the year.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 19 to the accounts.

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in note 10 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 17 to the accounts.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 March 2003 are set out in note 11 to the accounts.

Distributable reserves

Distributable reserves of the Company as at 31 March 2003 amounted to HK\$33.7 million. Under section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

Report of the Directors

Financial summary

The summary of the results and of the assets and liabilities of the Group for the last four financial years, prepared under the basis set out in note 1 to the accounts, is set out on page 42.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

The directors during the year were:

Mr. TSOI Siu Ching, Leo
Ms. KOU Zhi Hui (resigned on 2 September 2002)
Mr. PUN Wai
Mr. LIU Kwong Sang *
Mr. CHAN Chi Tong *

* Independent non-executive directors

Mr. Pun Wai will retire by rotation at the forthcoming annual general meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer himself for re-election.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on page 12.

Directors' service contracts

Each of the executive directors has entered into a service contract with the Company for a term of two years from 6 March 2002, which may be terminated by either party thereto giving to the other not less than three calendar months prior notice in writing, or otherwise in accordance with its terms.

Save as disclosed herein, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Report of the Directors

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' benefits from rights to acquire shares or debentures

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, invite any employees, directors of the Company and/or any of its subsidiaries, any adviser or consultant, distributors, suppliers, agents, customers, partners, joint venture partners, promoter and service providers to the Group to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK\$1.00 to the Company by way of consideration for the grant.

As at 31 March 2003, no option has been granted or agreed to be granted by the Company under the Scheme.

Ms. Kou Zhi Hui, a former director of the Company had options to subscribe for 3,600,000 shares in Arcontech Corporation, an intermediate holding company of the Company. No such options were exercised and all such options have been lapsed during the year upon the resignation of Ms. Kou on 2 September 2002.

Save as disclosed above, none of the directors or their spouses or children under 18 years of age had any right to subscribe for the shares of the Company, or had exercised any right during the year and up to the date of this report.

Save as disclosed above, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the Directors

Directors' interests in equity

As at 31 March 2003 and up to the date of this report, the interests of the directors and their associates in the share capital of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as required to be recorded in the register maintained under Section 29 of the SDI Ordinance of the Company or which required, pursuant to rules 5.40 to 5.49 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Type of interest	Number of shares	Percentage of issued share capital	
			As at 31 March 2003	As at the date of this report
Mr. TSOI Siu Ching, Leo	Corporate (Note 1)	387,888,000	67.34%	65.64%
Mr. PUN Wai	Personal	426,000	0.07%	0.07%

Directors' interests in options over shares in Arcontech Corporation are referred to above.

The Director's interest in Arcontech Corporation, an intermediate holding company of the Group and Arcon Solutions (BVI) Limited, an immediate holding company of the Group are as follows:

Name of Director	Name of Company	Type of interest	Number of shares
Mr. TSOI Siu Ching, Leo	Arcontech Corporation	Corporate (Note 1)	472,384,000
Mr. TSOI Siu Ching, Leo	Arcon Solutions (BVI) Limited	Corporate (Note 1)	3,250 shares of US\$1.00 each

Note 1: Mr. TSOI Siu Ching, Leo is the beneficial owner of Upgrade Technology Limited which in turn holds 472,384,000 shares in the issued share capital of Arcontech Corporation. Arcontech Corporation is in turn deemed to be interested in 387,888,000 shares in the issued share capital of the Company by virtue of its interests in its wholly owned subsidiary Arcon Solutions (BVI) Limited.

Save as disclosed above, as at the date of this report, none of the directors or their associates had any interests in the share capital of the Company and its associated corporations as defined in the SDI Ordinance.

Substantial shareholders

As at 31 March 2003 and up to the date of this report, according to the register of substantial shareholders maintained under section 16 (1) of the SDI Ordinance, the following person is interested in 5% or more of the Company's issued share capital:

Name	Number of shares	Percentage of issued share capital	
		As at 31 March 2003	As at the date of this report
Arcon Solutions (BVI) Limited (Note 1)	387,888,000	67.34%	65.64%

Note 1: Arcontech Corporation is interested in these shares held by its wholly owned subsidiary Arcon Solutions (BVI) Limited. Upgrade Technology Limited is also interested in these shares by virtue of its holding of 472,384,000 shares in the issued capital of Arcontech Corporation. Mr. TSOI Siu Ching, Leo is in turn interested in these shares through Upgrade Technology Limited, a company in which Mr. TSOI Siu Ching, Leo holds 100% of its issued share capital.

Report of the Directors

Competing Interests

None of the directors, initial management shareholders and their respective associates of the Company has an interest in a business which competes or may compete with the business of the Group.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
- the largest customer	54.29%
- five largest customers combined	96.86%
Purchases	
- the largest supplier	49.39%
- five largest suppliers combined	99.91%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

Audit committee

The audit committee has three members comprising Messrs. LIU Kwong Sang, CHAN Chi Tong and PUN Wai. Mr. LIU Kwong Sang has been appointed chairman of the audit committee. The terms of reference of the audit committee have been established with regard to Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts, half-yearly and quarterly reports, (ii) to provide advice and comments thereon to the Board, and (iii) to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee held four meetings during the year. At the meetings, the committee focused on examining and approving the quarterly results for the year ended 31 March 2003 and the final results for the year ended 31 March 2003.

Board practices and procedures

The Group has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules, since listed on the GEM of The Stock Exchange.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands.

Report of the Directors

Sponsor's interest

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 31 March 2003, neither the Sponsor nor any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 11 March 2002 entered into between the Company and the Sponsor, the Sponsor received, and will receive sponsorship fees for acting as the Company's retained sponsor until 31 March 2004.

Retirement scheme

Details of the retirement scheme are set out in note 9 to the accounts.

Auditors

PricewaterhouseCoopers resigned as joint auditors of the Company on 21 May 2003. Graham H.Y. Chan & Co. remained as the Company's auditors from that date.

The accounts have been audited by Graham H.Y. Chan & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Tsoi Siu Ching, Leo

Chairman

Hong Kong, 26 June 2003

Auditors' Report



GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

AUDITORS' REPORT TO THE SHAREHOLDERS OF SATELLITE DEVICES CORPORATION

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 20 to 41 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H. Y. Chan & Co.
Certified Public Accountants

Hong Kong, 26 June 2003

Consolidated Profit and Loss Account

For the year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	3	57,471	28,704
Cost of location-based technology devices and applications		<u>(37,683)</u>	<u>(10,681)</u>
		19,788	18,023
Other revenues	3	48	206
Advertising and promotion costs		(2,383)	(3,896)
Staff costs		(10,112)	(7,523)
Depreciation		(11,723)	(7,011)
Other charges		(18,719)	—
Other operating expenses		<u>(6,245)</u>	<u>(5,695)</u>
Loss before taxation	4	(29,346)	(5,896)
Taxation	5	<u>775</u>	<u>971</u>
Loss attributable to shareholders	6, 19	<u><u>(28,571)</u></u>	<u><u>(4,925)</u></u>
Basic loss per share	7	<u><u>4.96 cents</u></u>	<u><u>0.99 cents</u></u>

Consolidated Balance Sheet

As at 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Fixed assets	10	<u>41,795</u>	<u>50,157</u>
Investments in associated companies	12	<u>4</u>	<u>4</u>
Current assets			
Inventories	13	5,229	1,567
Trade receivables	14	41,018	7,154
Deposits, prepayments and other receivables		10,695	2,555
Cash and bank balances		<u>289</u>	<u>39,641</u>
		<u>57,231</u>	<u>50,917</u>
Current liabilities			
Trade payables	15	27,111	45
Other payables and accruals		4,005	3,916
Amount due to a director	16	168	—
Current portion of obligation under finance lease	20	<u>15</u>	<u>15</u>
		<u>31,299</u>	<u>3,976</u>
Net current assets		<u>25,932</u>	<u>46,941</u>
Total assets less current liabilities		<u><u>67,731</u></u>	<u><u>97,102</u></u>
Financed by:			
Share capital	17	57,600	57,600
Reserves	19	<u>10,108</u>	<u>38,689</u>
Shareholders' funds		<u>67,708</u>	<u>96,289</u>
Long-term portion of obligation under finance lease	20	23	38
Deferred taxation	21	<u>—</u>	<u>775</u>
		<u><u>67,731</u></u>	<u><u>97,102</u></u>

On behalf of the Board

Tsoi Siu Ching, Leo
Director

Pun Wai
Director

Balance Sheet

As at 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Investments in subsidiaries	11	<u>93,163</u>	<u>67,211</u>
Current assets			
Other receivables		90	1,751
Bank balances		<u>26</u>	<u>26,173</u>
		<u>116</u>	<u>27,924</u>
Current liabilities			
Other payables and accruals		<u>2,000</u>	<u>3,046</u>
Net current (liabilities)/assets		<u>(1,884)</u>	<u>24,878</u>
Total assets less current liabilities		<u><u>91,279</u></u>	<u><u>92,089</u></u>
Financed by:			
Share capital	17	<u>57,600</u>	57,600
Reserves	19	<u>33,679</u>	<u>34,489</u>
Shareholders' funds		<u><u>91,279</u></u>	<u><u>92,089</u></u>

On behalf of the Board

Tsoi Siu Ching, Leo

Director

Pun Wai

Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2003

	2003 HK\$'000	2002 HK\$'000
Balance at beginning of the year	96,289	9,125
Issue of share capital	—	57,600
Share premium arising on allotment of shares	—	69,990
Share premium arising on placing of shares	—	23,328
Placing and listing expenses	—	(9,015)
Capitalisation issue	—	(49,814)
Exchange differences arising on translation of accounts of an overseas subsidiary	(10)	—
Loss attributable to shareholders	<u>(28,571)</u>	<u>(4,925)</u>
Balance at end of the year	<u><u>67,708</u></u>	<u><u>96,289</u></u>

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	Note	2003 HK\$'000	2002 HK\$'000
Net cash (used in)/from operating activities	22(a)	(37,247)	28,300
Cash flows from investing activities			
Purchase of fixed assets		(2,105)	(24,728)
Investments in associated companies		—	(4)
Interest received		25	206
Net cash used in investing activities		(2,080)	(24,526)
Cash flows from financing activities			
Repayment to an intermediate holding company		—	(709)
Repayment of capital element of finance leases		(15)	(15)
Net proceeds from issue of shares by the Company		—	22,089
Net cash (used in)/ from financing activities		(15)	21,365
Net (decrease)/increase in cash and cash equivalents		(39,342)	25,139
Cash and cash equivalents at beginning of the year		39,641	14,502
Effect of foreign exchange rate changes		(10)	—
Cash and cash equivalents at end of the year		289	39,641
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		289	39,641

Notes to the Accounts

1 Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002 :

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 34	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies on the amounts disclosed in the accounts of adopting these SSAPs are summarised as follows :

SSAP 1 (revised) prescribes the basis for the presentation of accounts and set out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 23 in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and accounts. The principal impact of this revised SSAP on the accounts is that the profit and loss accounts of overseas subsidiaries are translated at an average rate for the year on consolidation, rather than at the closing rate. This has no material effect on the amounts previously recorded in the accounts.

SSAP 15 (revised) prescribes the format for the cash flow statement. The principal impact of the revision on this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on page 24 of the accounts and the notes thereto have been revised in accordance with the new requirements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in additional disclosures relating to the Company's share option scheme, as set out in note 18 of the accounts.

The adoption of these new and revised SSAPs has no material impact on the accounts of the Group and the Company for the current and prior accounting periods. Accordingly, no prior period adjustment is required.

Notes to the Accounts

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below :

(a) *Group accounting*

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital, or by way of having power to govern its financial and operating policies so that the Group obtains benefits from their activities.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(b) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rates are as follows:

Furniture, fixtures and office equipment, and computer equipment	20%-33.3%
Motor vehicles	25%
Moulds	50%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Notes to the Accounts

2 Principal accounting policies (Continued)

(c) *Assets under leases*

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in obligations under finance leases in the balance sheet. The finance charges are charged to the profit and loss account over the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) *Trade receivables*

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision, if any.

(f) *Impairment of assets*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Accounts

2 Principal accounting policies (Continued)

(g) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(h) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(i) *Deferred taxation*

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(j) *Translation of foreign currencies*

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

On consolidation, the accounts of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the average rates for the year. The balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are dealt with as a movement in the exchange reserve.

(k) *Employee benefits*

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the profit and loss account in respect of the value of options granted during the year. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapsed prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

Notes to the Accounts

2 Principal accounting policies (Continued)

(l) *Research and development costs*

Costs incurred in the research and development of products of the Group are expensed as incurred unless the costs of development satisfy the criteria for the recognition of such costs as assets. During the year, all research and development costs have been expensed.

(m) *Revenue recognition*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3 Turnover and revenues

The Group is principally engaged in the design, development and sales of location-based technology devices and applications. Revenues recognised during the year are as follows :

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sales of goods	57,471	28,704
Other revenues		
Interest income	25	206
Sundry income	23	—
	48	206
Total revenues	57,519	28,910

No activity analysis and geographical analysis are presented for the years ended 31 March 2003 and 2002 as substantially all the Group's turnover and contribution to results were derived from the design, development and sales of location-based technology devices and applications in Hong Kong.

Notes to the Accounts

4 Loss before taxation

Loss before taxation is stated after charging the following:

	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration	200	600
Depreciation of fixed assets		
- owned assets	11,708	6,996
- assets held under finance leases	15	15
Operating lease rental in respect of land and buildings	984	553
Research and development costs (note (a))	4,097	4,125
Retirement benefits costs (note 9)	246	259
Exchange loss	7	44
Other charges:		
Provision for doubtful debts	12,237	—
Write off of inventories	6,038	—
Loss on disposal of fixed assets	444	—
	<u> </u>	<u> </u>

(a) Included in the research and development costs were staff costs of HK\$3,644,000 (2002: HK\$3,126,000) which had also been included in staff costs set out in the consolidated profit and loss account.

5 Taxation

	2003 HK\$'000	2002 HK\$'000
Deferred taxation (note 21)	775	971
	<u> </u>	<u> </u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the years ended 31 March 2003 and 2002.

No overseas taxation has been provided as the Group's overseas subsidiary did not have any taxable profit for the year.

6 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$810,000 (2002: HK\$100).

7 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders of approximately HK\$28,571,000 (2002: HK\$4,925,000) and the weighted average number of 576,000,000 ordinary shares (2002: 499,518,247 ordinary shares) in issue during the year.

Diluted loss per share is not presented because there were no dilutive potential ordinary shares outstanding during the two years ended 31 March 2003.

Notes to the Accounts

8 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Independent non-executive directors		
Fees	154	—
Other emoluments of executive directors		
- Basic salaries, allowances and other benefits in kind	2,319	680
- Retirement benefits scheme contributions	30	18
	<u>2,349</u>	<u>698</u>
Total directors' emoluments	<u>2,503</u>	<u>698</u>

The directors' fees disclosed above were paid to an independent non-executive director. The other independent non-executive director did not receive any directors' fees for the year.

During the year, each of the executive directors of the Company received emoluments from the Group of HK\$467,000 (2002: HK\$454,000), HK\$255,000 (2002: HK\$148,000) and HK\$1,627,000 (2002: HK\$96,000) respectively.

No directors waived or agreed to waive any of their emoluments in respect of the years ended 31 March 2003 and 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: four) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, allowances and other benefits in kind	2,037	2,103
Retirement benefits scheme contributions	30	51
	<u>2,067</u>	<u>2,154</u>

The emoluments of the three (2002: four) highest paid individuals during the years ended 31 March 2003 and 2002 fell in the band from Nil to HK\$1,000,000.

During the year, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement upon joining the Group, or as compensation for loss of office.

Notes to the Accounts

9 Retirement benefits costs

The Group operates a mandatory provident fund scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. The Group's contributions to the Scheme vest fully with the employees. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

At 31 March 2003, contributions totalling HK\$16,000 (2002: HK\$69,000) were payable to the MPF Scheme and were included in other payables in the consolidated balance sheet.

10 Fixed assets - Group

	Computer equipment HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost					
At 1 April 2002	56,322	1,273	213	187	57,995
Additions	3,162	643	—	—	3,805
Disposals	(69)	(816)	—	—	(885)
At 31 March 2003	<u>59,415</u>	<u>1,100</u>	<u>213</u>	<u>187</u>	<u>60,915</u>
Accumulated depreciation					
At 1 April 2002	7,214	468	81	75	7,838
Charge for the year	11,342	234	53	94	11,723
Written back on disposals	(33)	(408)	—	—	(441)
At 31 March 2003	<u>18,523</u>	<u>294</u>	<u>134</u>	<u>169</u>	<u>19,120</u>
Net book value					
At 31 March 2003	<u>40,892</u>	<u>806</u>	<u>79</u>	<u>18</u>	<u>41,795</u>
At 31 March 2002	<u>49,108</u>	<u>805</u>	<u>132</u>	<u>112</u>	<u>50,157</u>

Included in the additions of computer equipment are fixed assets with cost of HK\$2,300,000 which have not been put into effective use as at 31 March 2003. No depreciation has been provided on these fixed assets for the year.

At 31 March 2003, the net book value of fixed assets held by the Group under finance leases included in the total amount of furniture, fixtures and office equipment amounted to HK\$39,000 (2002: HK\$54,000).

Notes to the Accounts

11 Investments in subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Amounts due from subsidiaries (note (b))	93,163	69,990
Amount due to a subsidiary (note (b))	—	(2,779)
	<u>93,163</u>	<u>67,211</u>

(a) The following is a list of the subsidiaries of the Company as at 31 March 2003:

Company	Country/place and date of incorporation	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Interest held
Shares held directly:-				
Satellite Devices (BVI) Limited	The British Virgin Islands 15 March 2000	Investment holding in Hong Kong	Ordinary US\$3	100%
Shares held indirectly:-				
Satellite Devices Limited	Hong Kong 14 July 1999	Design, development and sales of location based technology devices and applications in Hong Kong	Ordinary HK\$5,000,000	100%
衛科導航技術 (深圳) 有限公司 (“Satellite Devices Technology (Shenzhen) Company Limited”)	The People's Republic of China excluding Hong Kong (the “PRC”) 2 August 2002	Provision of technical support services in PRC	Registered capital HK\$3,000,000	100%
Predominate Technology Limited	The British Virgin Islands 5 July 2000	Investment holding in Hong Kong	Ordinary US\$1	100%

Satellite Devices Technology (Shenzhen) Company Limited has adopted 31 December as its financial year end date in order to comply with the Accounting Regulations of the People's Republic of China for Enterprises with Foreign Investment.

(b) The amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Notes to the Accounts

12 Investments in associated companies

	2003 HK\$'000	2002 HK\$'000
Share of net assets	1,474	1,474
Amount due to an associated company (note (b))	(1,470)	(1,470)
	<u>4</u>	<u>4</u>

(a) The following is a list of the associated companies of the Group at 31 March 2003:

Company	Place and date of incorporation	Principal activities and place of operation	Issued share capital	Interest held indirectly
Telematics Systems Limited	Hong Kong 22 June 2001	Sales of vehicle positioning systems and in-vehicle telematics units in Hong Kong	Fully paid up ordinary shares of HK\$10,000	40%
New Era Telematics Limited	Hong Kong 5 September 2001	Development and distribution of in-vehicle and ancillary products and provision for ancillary services in the PRC	Ordinary shares of HK\$3,000,000	49%

Telematics Systems Limited and New Era Telematics Limited have adopted 31 December as their financial year end date.

Both associated companies were inactive during the year.

(b) The amount due to an associated company is unsecured, interest free and has no fixed terms of repayment.

13 Inventories

Inventories comprise electronic components and parts. As at 31 March 2003 and 2002, all inventories were carried at cost.

Notes to the Accounts

14 Trade receivables

Details of ageing analysis of trade receivables are as follows:

	2003 HK\$'000	2002 HK\$'000
0 - 30 days	228	5,895
31 - 60 days	71	19
61 - 90 days	207	57
Over 90 days	<u>52,749</u>	<u>1,183</u>
	53,255	7,154
Less: Provision for doubtful debts	<u>(12,237)</u>	<u>—</u>
	<u><u>41,018</u></u>	<u><u>7,154</u></u>

Customers are generally granted with credit terms of 30 to 90 days.

15 Trade payables

Details of ageing analysis of the trade payables are as follows:

	2003 HK\$'000	2002 HK\$'000
0 - 30 days	16	37
31 - 60 days	—	7
61 - 90 days	4	—
Over 90 days	<u>27,091</u>	<u>1</u>
	27,111	45
	<u><u>27,111</u></u>	<u><u>45</u></u>

16 Amount due to a director

The amount is unsecured, interest-free and repayable on demand.

17 Share capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
As at 31 March 2003 and 2002	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 31 March 2003 and 2002	<u>576,000,000</u>	<u>57,600</u>

Notes to the Accounts

18 Share options

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, invite any employees, directors of the Company and/or any of its subsidiaries, any adviser or consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoter and service providers to the Group to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not be less than the highest of (i) the nominal value of the shares on the date of offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK\$1.00 to the Company by way of consideration for the grant.

As at 31 March 2003, no option has been granted or agreed to be granted by the Company under the Scheme.

Ms. Kou Zhi Hui, a former director of the Company had options to subscribe for 3,600,000 shares in Arcontech Corporation, an intermediate holding company of the Company. No such options were exercised and all such options have been lapsed during the year upon the resignation of Ms. Kou on 2 September 2002.

Notes to the Accounts

19 Reserves

(a) Group

	Share premium HK\$'000	Exchange reserve HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Total HK\$'000
At 1 April 2001	—	—	9,125	9,125
Allotment of shares	69,990	—	—	69,990
Placing of shares	23,328	—	—	23,328
Placing and listing expenses	(9,015)	—	—	(9,015)
Capitalisation issue	(49,814)	—	—	(49,814)
Loss attributable to shareholders	—	—	(4,925)	(4,925)
	<u>34,489</u>	<u>—</u>	<u>4,200</u>	<u>38,689</u>
At 31 March 2002	34,489	—	4,200	38,689
At 1 April 2002	34,489	—	4,200	38,689
Exchange differences arising on translation of accounts of an overseas subsidiary	—	(10)	—	(10)
Loss attributable to shareholders	—	—	(28,571)	(28,571)
	<u>34,489</u>	<u>(10)</u>	<u>(24,371)</u>	<u>10,108</u>
At 31 March 2003	34,489	(10)	(24,371)	10,108

(b) Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2001	—	—	—
Allotment of shares	69,990	—	69,990
Placing of shares	23,328	—	23,328
Placing and listing expenses	(9,015)	—	(9,015)
Capitalisation issue	(49,814)	—	(49,814)
Loss for the year	—	—	—
	<u>34,489</u>	<u>—</u>	<u>34,489</u>
At 31 March 2002	34,489	—	34,489
At 1 April 2002	34,489	—	34,489
Loss for the year	—	(810)	(810)
	<u>34,489</u>	<u>(810)</u>	<u>33,679</u>
At 31 March 2003	34,489	(810)	33,679

Notes to the Accounts

19 Reserves (Continued)

- (i) Under section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.
- (ii) The loss of the Company for the year ended 31 March 2002 amounted to HK\$100.

20 Obligation under finance lease

As at 31 March 2003, the Group's obligation under finance lease was repayable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	16	16
In the second year	16	16
In the third to fifth year	9	26
	<hr/>	<hr/>
Future finance charge on finance lease	41	58
	(3)	(5)
	<hr/>	<hr/>
Present value of finance lease liabilities	38	53
	<hr/> <hr/>	<hr/> <hr/>

The present value of finance lease liabilities is as follows:

Within one year	15	15
In the second year	15	15
In the third to fifth year	8	23
	<hr/>	<hr/>
	38	53
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

21 Deferred taxation

	2003 HK\$'000	2002 HK\$'000
At beginning of the year	775	1,746
Transfer to profit and loss account (note 5)	(775)	(971)
	<hr/>	<hr/>
At end of the year	<u>—</u>	<u>775</u>
Timing differences in respect of:		
Accelerated depreciation allowances	6,568	4,341
Unutilised tax losses	(6,568)	(3,566)
	<hr/>	<hr/>
	<u>—</u>	<u>775</u>

As at 31 March 2003, the Group had unrecognised deferred tax asset of HK\$3,465,000 which represents the tax effect of timing differences arising as a result of tax losses available to set off against future assessable profits. This deferred tax asset has not been recognised in the accounts as it is not certain that the benefit will be realised in the foreseeable future. The Group had no material deferred tax asset as at 31 March 2002.

The Group had no material unprovided deferred tax liability as at 31 March 2003 and 2002.

22 Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to cash flow (used in)/from operating activities

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(29,346)	(5,896)
Adjustments for :		
Depreciation of owned fixed assets	11,708	6,996
Depreciation of fixed assets held under finance lease	15	15
Loss on disposal of fixed assets	444	—
Provision for doubtful debts	12,237	—
Write off of inventories	6,038	—
Interest income	(25)	(206)
	<hr/>	<hr/>
Operating profit before working capital changes	1,071	909
Increase in inventories	(9,700)	(1,567)
(Increase)/decrease in trade receivables	(46,101)	5,506
(Increase)/decrease in deposits, prepayments and other receivables	(8,140)	19,954
Increase in trade payables, other payables and accruals including amount due to a director	25,623	3,498
	<hr/>	<hr/>
Cash (used in)/ from operating activities	<u>(37,247)</u>	<u>28,300</u>

Notes to the Accounts

22 Notes to the consolidated cash flow statement (Continued)

(b) Major non-cash transactions

- (i) During the year ended 31 March 2002, an aggregate of 99,996 shares of the Company were allotted, issued and credited as fully paid at the direction of Arcotech Corporation ("Arcotech"), an intermediate holding company of the Company, as consideration for the assignment of a loan due from Satellite Devices (BVI) Limited to Arcotech in the principal amount of HK\$70,000,000 to the Company.
- (ii) During the year, the Group was granted by The Chinese University of Hong Kong (the "University") an exclusive license to use the software with the right to grant sub-licenses to develop, manufacture, use and sell or supply projects developed by using the software for a term of 20 years at a consideration of HK\$2,300,000. The acquisition of such exclusive license was included in the addition of fixed assets for the year. Among the consideration, HK\$600,000 had been paid by cash and the balance of HK\$1,700,000 (the "Balance") was included in other payables in the consolidated balance sheet and the Company's balance sheet as at 31 March 2003. Subsequent to the balance sheet date, the Balance was settled by the issue and allotment of 14,916,000 consideration shares of the Company at HK\$0.114 to the University.

23 Commitments

(a) Commitment under operating leases

As at 31 March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	910	374
In the second to fifth years inclusive	864	225
	<u>1,774</u>	<u>599</u>

(b) Capital commitments in respect of acquisition of fixed assets

As at 31 March 2003, the Group had commitments in respect of acquisition of fixed assets as follows:

	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	540	877
Authorised but not contracted for	3,000	21,500
	<u>3,540</u>	<u>22,377</u>

(c) Capital commitment in respect of investment in a subsidiary

As at 31 March 2003, the Group had unprovided capital commitments amounting to HK\$1,837,000 in respect of the investment in a subsidiary, Satellite Devices Technology (Shenzhen) Company Limited, being the balance of the required capital contribution to this subsidiary by the Group as at that date.

Notes to the Accounts

24 Related party transactions

Significant related party transactions which were carried out in the normal course of the Group's business are as follows:

	2003 HK\$'000	2002 HK\$'000
Expenses reimbursed to a fellow subsidiary, Arcon Management Services Limited (note (a))	—	877
Fund advance to a fellow subsidiary, Arcon Technology Limited (note (b))	—	7,805
	<u>—</u>	<u>8,682</u>

(a) These expenses comprise staff costs and related overheads which were charged on an actual reimbursement basis. The above transaction was discontinued subsequent to the listing of the shares of the Company on the GEM.

(b) The fund was advanced to Arcon Technology Limited during the year ended 31 March 2002 and the amount had been fully repaid prior to the listing of the shares of the Company on the GEM.

25 Subsequent event

As mentioned in note 22 (b)(ii), the balance of HK\$1,700,000 for the purchase of the software license was subsequently settled by the issue and allotment of 14,916,000 consideration shares of the Company at HK\$0.114 to the University on 17 April 2003.

26 Ultimate holding company

The directors regard Upgrade Technology Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

27 Comparative figures

Due to the adoption of new/revised SSAPs during the current year, the presentation of accounts and certain notes to accounts have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with current year's presentation.

28 Approval of accounts

The accounts were approved by the board of directors on 26 June 2003.

Financial Summary

	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results				
Profit/(loss) attributable to shareholders	(28,571)	(4,925)	9,172	(880)
Assets and liabilities				
Total assets	99,030	101,078	82,111	14
Total liabilities	(31,322)	(4,789)	(72,986)	(61)
Shareholders' funds/(deficit)	67,708	96,289	9,125	(47)

Note:

The results, assets and liabilities of the Group for four years ended 31 March 2003 have been prepared on a combined basis as if the group structure, at the time when the Company's shares were listed on the GEM, had been in existence throughout the years concerned.

The Financial Summary of the Group for the years ended 31 March 2001 and 2000 have been extracted from the Company's prospectus dated 12 March 2002.